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GRC
Global Rational Capital

Fact Sheet 31 December 2019

Global Rational Capital Fund

The Fund is focused on outperforming the global equity market over the long-term by seeking good businesses that can be understood and bought at a price below intrinsic value. We meet with well over 100 listed companies a year in search of investment opportunities.

The Founder, Robert Tate, CA, CFA, is fully invested in the Fund alongside all shareholders.

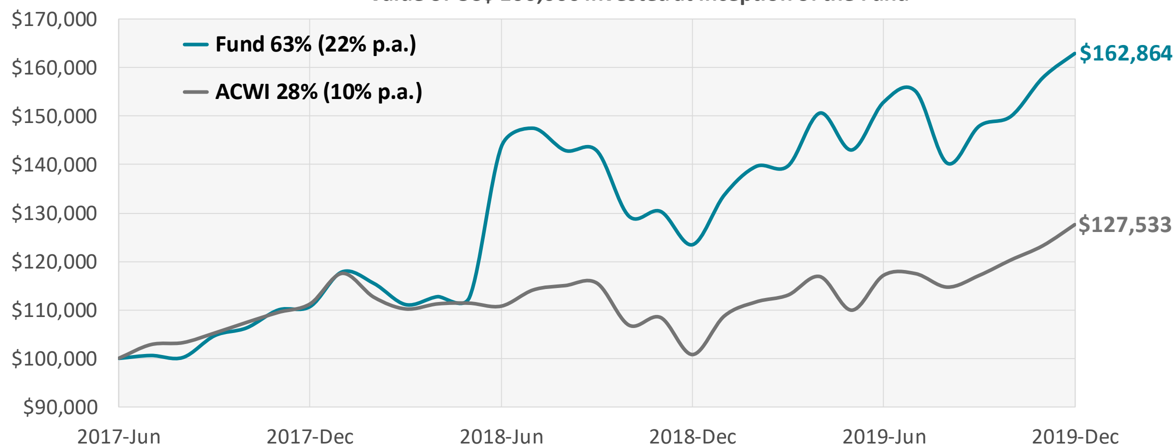
Fees are more sensitive to investment outperformance than to assets under management. Which means shareholders only pay above a minimal fee of 0.5% per annum when the Fund outperforms the benchmark over all periods to date.

Price	US$ 162.864
Currency	US Dollars
Domicile	Cayman Islands
Type	Open-ended mutual fund
Size	US$ 2.0 million
Fund Inception	1 July 2017
Benchmark	MSCI ACWI

Dealing	Monthly
Management fee	0.5% p.a.
Outperformance fee	20%
Auditor	Moore Stephens
Administrator	Brackstone Accounting
Corporate Services	Walkers Global
Director Founder	Robert Tate, CA, CFA

Performance net of all fees and expenses

Value of US$ 100,000 invested at inception of the Fund



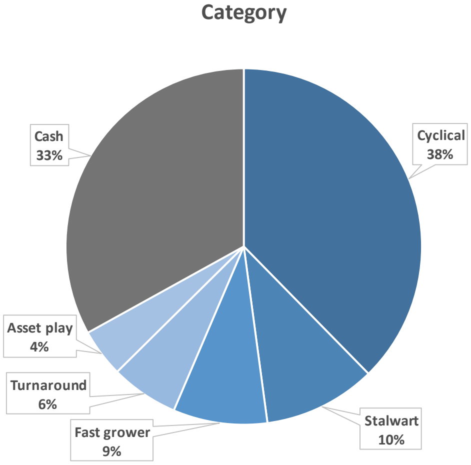
% Returns net	FUND NAV	MSCI ACWI
Cumulative:		
Since inception	63%	28%
Annualised:		
Since inception	22%	10%
Latest 2 years	21%	7%
Latest 1 year	32%	27%
Not annualised:		
Year-to-date	32%	27%

Portfolio concentration	
% NAV top 10 holdings	56%
% NAV top 20 holdings	67%
Total # of holdings	19

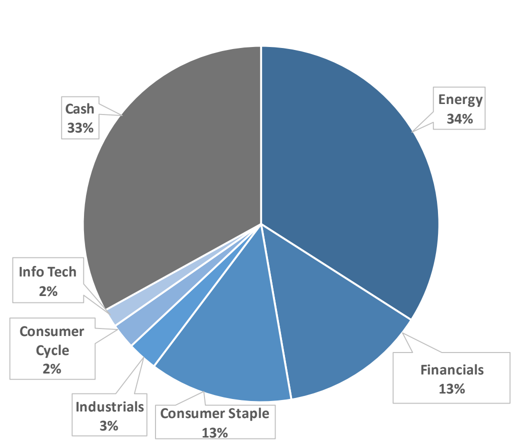
The Fund's benchmark, being the MSCI ACWI, also referred to as the MSCI All Country World Index, is a broad global free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance (including income reinvested) of developed and emerging markets. The MSCI ACWI is calculated and published by MSCI Inc.

For more information, please contact the Founder, Robert Tate, CA, CFA at robert.tate@globalrationalcapital.com or visit www.globalrationalcapital.com.

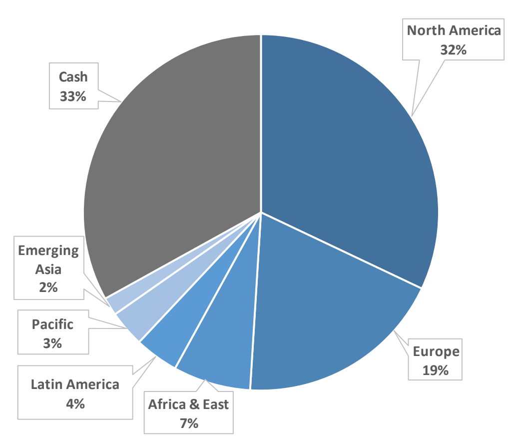
Category



Sector



Region



Since inception, the Fund has outperformed the benchmark however the Fund will experience periods of underperformance in pursuit of its investment objective while creating long-term wealth for investors. There can be no assurance that the Fund's investment strategy will achieve profitable results.

We are focused on long-term investment outperformance.

WHAT WE DO FOR YOU

FOCUS

We manage one Fund and our sole objective is to ensure it outperforms the global equity market. We are focused on long-term investment outperformance and our objective gives us a sense of purpose and justifies our existence.

We believe focus is vital for success and this is why we will never manage the investments of more than one fund or any segregated client accounts because this would distract us from our sole objective.

We will not dilute our time across competing priorities at the expense of investment performance. We also believe that a lot of choice doesn't necessarily help you make better investment decisions.

ALIGNMENT

All of our investable net worth is in the Fund alongside the interests of all shareholders. So if we underperform, it hurts us just as much as it hurts you.

The first question you should ask any investment manager is: "Are you going to be invested in the fund that I'm going to be invested in?". Many managers don't invest in the fund(s) they manage, or they only invest a small portion of their net worth.

At Global Rational Capital, we don't simply try to avoid conflicts of interest, we eliminate them, and we start by being fully and solely invested in the Fund so that it is impossible to put our interests against yours. We are all in this together.

INCENTIVES

Our fees are more sensitive to investment outperformance than to assets under management. Which means that you only pay over-and-above a minimal fee of 0.5% per annum when we outperform the benchmark over all periods to date. And the outperformance fees we earn must be reinvested back into the Fund.

Our fee structure forces us to prioritise long-term investment outperformance over short-term profitability and it provides a powerful incentive against gathering assets under management at the expense of investment performance. It's very different from the traditional "heads manager wins, tails clients lose" fee structure.

If we can't beat the benchmark, there is no reason for our existence. The fee structure is designed so that if we don't outperform, we will not profit, and we will not benefit by simply idling on a rising market tide.

Our efforts are focused entirely on the Fund's performance because the long-term success of Global Rational Capital is dependent on our ability to outperform. We have the courage to design the compensation structure in this unconventional manner because we believe we have the ability to outperform and will continue to prove it.

RATIONAL

We look for good businesses we can understand and buy at a price below intrinsic value. The approach is simple, but it requires a lot of time, effort and emotional intellect.

Intrinsic value is an estimate of the discounted value of the cash that can be taken out of a business during its remaining life. The lower the price of a share as compared to its assessed intrinsic value, the higher the margin of safety, and the more attractive we consider the share.

We view each stock investment as if we are the owners of the entire underlying business. This enables us to invest intelligently in a business-like manner and helps us avoid contagious irrational market emotions. We avoid the popular opinion and have the courage to foster contrarian insights.

We know that in the short-term, share prices are affected by market psychology; but over the long-term, share prices are determined by the economic progress of the underlying business and that is precisely what we pay attention to. We believe that market prices are there to serve us, not to instruct us.

Our investment research is focused on understanding businesses, estimating intrinsic value, and seeking undervalued companies with excellent potential. A key component of our research process is direct contact with company management through calls and face-to-face meetings.

We believe that successful investing is 90% hard work and our annual goal is to have over 100 company meetings and to read over 400 financial statements.

LONG-TERM

We view all shareholders as owner-partners who have entrusted their capital to us for the long-term. Having shareholders with a long-term orientation is the most important factor in enabling us to take a long-term time frame while the world puts disproportionate pressure on short-term results.

We put our clients' interests first and treat them as we would want to be treated if our roles were reversed and we believe our promises to manage the investments of only one fund and to be fully invested in the Fund are important commitments that will benefit you and us over the long-term.

The Fund is suitable for those investors who:

- Seek exposure to listed equities globally to provide long-term capital growth
- Are comfortable with stock market fluctuations, i.e. short- to medium-term volatility
- Are prepared to accept the risk of capital loss
- Have a long-term orientation and an investment horizon of at least five years
- Understand that we generally assess investments using a five-year time horizon

The Fund is available to long-term investors globally and while we may not be the best fit for everyone, we can help you decide if we are the right partner for you.

INVESTMENT STRATEGY

We look for good businesses we can understand and buy at a price below intrinsic value. The approach is simple, but it requires a lot of time, effort and emotional intellect.

WE SEEK A DISCOUNT TO INTRINSIC VALUE

Intrinsic value is an estimate of the discounted value of the cash that can be taken out of a business during its remaining life. It is what a prudent businessman would be prepared to pay for an entire business with consideration for the company's long-term prospects.

The lower the price of a share as compared to its assessed intrinsic value, the higher the margin of safety, and the more attractive we consider the share. The margin of safety is by definition, a favourable difference between price on the one hand and intrinsic value on the other.

WE BELIEVE MARKET PRICES ARE THERE TO SERVE US, NOT TO INSTRUCT US

We view each stock investment as if we were the owner of the entire underlying business because investing is most intelligent when it is most business like. In the short-term, share prices are affected by market psychology; but over the long-term, share prices are determined by the economic progress of the underlying business.

There are times when a company's share price is above its intrinsic value, often when investors are overly optimistic and expect the price to continue to increase as greed dominates. There are also times when a company's share price is below intrinsic value, often when investors are overly pessimistic and expect developments to continue to worsen as fear dominates.

WE TAKE A CONTRARIAN VIEW

We are often attracted to shares that are disliked or unfollowed by others and are less likely to find great investments in areas that other investors or the financial community are excited about. Underappreciated securities are often underpriced by the market because sellers typically outnumber buyers.

WE TAKE A LONG-TERM VIEW

We cannot predict the length of time it will take for a stock to be priced more rationally, therefore we take a long-term view and will hold an investment through short-term market pessimism and wait for the market to eventually recognise the company's true value.

We are unable to time and predict a share price trough or peak and make no effort to do so. Instead, we focus on assessing a business's intrinsic value and we wait to buy at prices below and sell at prices above such value.

WE FOCUS ON RISK

We believe that risk is the possibility of a permanent loss of capital and we focus on the margin of safety because we believe it is important for absorbing the effect of miscalculations or worse than average luck. If an investment is bought on a bargain basis, even a moderate decline in the earning power need not prevent it from showing satisfactory results. The margin of safety will then have served its proper purpose.

The portfolio is considered in two parts: the small-growth and cyclical stocks; and the conservative stocks and cash. When the market heads lower, we sell the conservative stocks, utilise more cash and add to the small-growth and cyclical stocks. When the market picks up, we sell some of the winners from the growth stocks and cyclical stocks and add to the conservative stocks and keep more cash on hand to be utilised later when more appropriately priced opportunities become available.

WE PREFER WONDERFUL BUSINESSES

Businesses with wonderful economic characteristics and which can increase intrinsic value over time at an attractive rate are preferred. Other businesses with less promising long-term prospects are also considered, however a wider discount to intrinsic value shall be sought when purchasing shares in these companies.

WE WORK HARD TO UNDERSTAND BUSINESSES

Our investment research is focused on understanding businesses, estimating intrinsic value, and seeking undervalued companies. Research includes but is not limited to: reviewing company and competitor financial statements and historical records; meeting company management; testing company products and services; questioning industry contacts; reading industry news; and screening various databases for undervalued businesses.

A key component of our research process is direct contact with company management through calls and face-to-face meetings. This is because we believe that company management should be industry experts best positioned to explain drivers of the industry's supply-demand dynamic and profitability. We believe that successful investing is 90% hard work and our annual goal is to have over 100 company meetings and to read over 400 financial statements.

Investment evaluation includes an assessment of: the earning power and quality of company assets; the level of company debt and cash; the quality and integrity of company management; and the competitiveness of the company and the industry. Companies which are poorly managed or are vulnerable due to excessive debt or competition are avoided.

WE CONSIDER SPECIFIC INVESTMENT CATEGORIES AND CHARACTERISTICS

To foster an organised rational decision-making process, we classify investments of interest into specific Investment Categories (described on page 4) and consider whether a potential investment possesses certain specific favourable Investment Characteristics (described on page 5).

WE MONITOR THE PORTFOLIO BY RANKING INVESTMENTS

We constantly monitor portfolio positions and the correlation between them to control diversification. Investments with the highest expected return and the lowest risk are prioritised. Conviction is based on how well we know the company and to what extent the outcome is predictable.

WE ACKNOWLEDGE THE WISDOM OF INTELLIGENT INVESTORS

Although there is no monopoly on investment ideas, one must give credit where it is clearly due. Our investment philosophy is based on the shared wisdom and generous teaching of Benjamin Graham, Peter Lynch and Warren Buffett.

INVESTMENT CATEGORIES

We are discerning about public disclosure of individual securities since good investment ideas are rare, valuable and subject to competitive appropriation; however, we explain how we think so that you can assess our capital allocation approach. We classify investments into the following Investment Categories to foster an organised rational decision-making process.

FAST GROWERS

Fast growers are small to medium sized companies that can grow earnings quickly and have room to grow. The ideal fast grower should have a proven accelerating expansion record; a low institutional investor and analyst following; and a sensible unleveraged Price to Earnings ("P/E") ratio.

The P/E ratio is often a useful measure of whether a stock is overpriced, fairly priced, or underpriced relative to a company's earning power. The average P/E for a slow grower will be lower than the average P/E for a medium grower, and that in turn will be lower than the average P/E of a fast grower. A bargain P/E for a medium grower isn't necessarily the same as a bargain P/E for a fast grower.

Fast growers can be held for a long time provided there continues to be adequate room to grow and provided they have not become too expensive.

Fast growers are often upstart enterprises which learn to succeed in one place, and then duplicate the winning formula over and over, city by city etc. The expansion into new markets results in accelerating earnings which drives the stock's price higher.

One should consider the fast grower's debt and whether the company is growing too aggressively and unsustainably. Larger fast growers risk a rapid devaluation when they begin to falter. The key for fast growers is to determine when they'll stop growing and how much to pay for the growth. The total return from a fast grower is driven primarily by the growth in the company's earning power.

STALWARTS

Stalwarts, sometimes called medium growers, are large well-established companies with durable competitive advantages that enable them to produce satisfactory and consistent earnings growth.

Stalwarts typically offer good protection during recessions. One may check for possible unwise diversification that may negatively affect the company and reduce earnings in the future. If the P/E strays too far beyond the normal range, one may consider selling the company and waiting to buy it back later at a lower price. Satisfactory returns can be made by compounding a series of gains in stalwarts and one may consider taking profits more readily than with young fast growers.

Stalwarts with heavy institutional ownership and analyst coverage that have outperformed and are overpriced are due for stagnation or a decline. The total return from a stalwart is primarily driven by a combination of: moderate growth in earning power; and narrowing of the margin between price and intrinsic value.

CYCLICALS

Cyclicals are companies which operate in commoditised industries and supply standardised products that cannot be easily differentiated. Cost leadership and low debt are important qualities of sustainable cyclical companies. The earnings of cyclical companies fluctuate widely in line with the industry cycle and their stock charts often look like the Alps with sharp peaks and deep troughs.

It is important to have a comprehensive understanding of the cyclical industry. The best time to buy a cyclical is at the bottom of the cycle and those who have a thorough understanding of the industry have an advantage in determining the bottom. Insider buying possibly offers the strongest signal to buy.

Coming out of a recession, cyclicals tend to rise much faster than the prices of the stalwarts. With most stocks, a low P/E ratio is regarded as a good thing, but not with the cyclicals. The average earning power of the business over a full cycle is a useful indicator for assessing the normalised value of the business. The total return from these investments is primarily driven by an upturn in the cycle.

TURNAROUNDS

A turnaround could be a company that had been doing well; however, due to a temporary mishap, the company's short-term results are affected and its stock price plummets.

The mishap must be temporary in nature and not harm the long-term fundamentals and growth of the company. One should find out if the company can survive this mishap, emerge from it and return to its former earning power over time. One should determine what management is doing to correct the mishap and whether they are redressing it effectively. Key focus areas are company management and debt.

The most important question is whether the company can survive loan repayment demands by creditors. What is the debt structure? How long can it operate under pressure while working out its problems without becoming insolvent? How is the company supposed to be turning around and is business recovering? Are costs being cut?

There are several types of turnarounds including: 1) a bail-out dependant on government support; 2) a minor tragedy perceived worse than it is (stay away from tragedies that are unmeasurable); 3) a perfectly good company inside a bankrupt company; 4) a restructuring to maximise shareholder value; and 5) a security higher up in the capital structure.

Caution and careful analysis is required because there is a very fine line between turnarounds that are great investment opportunities and those that will become bankrupt. A benefit to investing in successful turnarounds is that of all the categories of stocks, their ups and downs are least correlated to the general market.

ASSET PLAYS

An asset play is a company that owns something valuable that the market has overlooked. The overlooked asset may be cash; real estate; a listed or private company; a brand, patent or license; intellectual property; customer data; or an unutilised tax break.

Asset plays can be low-risk and high-gain investments if one is confident of the asset values. A key issue is determining what will remain after all debts and future costs are taken into account. One should also consider whether there is a catalyst to narrow the discount to intrinsic value such as share buybacks or a potential corporate raider who may help shareholders reap the benefits of the assets.

INVESTMENT CHARACTERISTICS

We consider whether a potential investment possess one or more of the following specific favourable investment characteristics:

IT IS SIMPLE AND EASY TO UNDERSTAND

The simpler the business, the better. Excessively complicated companies are best avoided. Ideally, one should be able to draw the product or service with a pen or describe it to a child. If possible, the company's product(s) may be sampled. One should strive to identify and follow the most important industry specific factors that drive the business's profitability.

IT IS UNLOVED OR OUT-OF-FAVOUR

A company with terrific earnings potential and a strong balance sheet may be out-of-favour for non-economic reasons such as the following: it sounds boring (has a boring name); it does something dull (e.g. makes plastic cups); it does something disagreeable (e.g. waste management); it is depressing (e.g. a burial business), or it is listed in a country that is currently out-of-favour etc. In such instances, there may be a lot of time available to purchase the stock at a discount. Then, when the stock becomes trendy and overpriced, one can sell the shares to the trend-followers.

IT IS A SPINOFF

A spinoff is the creation of an independent company through the distribution of new shares in the spinoff company from an existing parent company. Spinoffs of divisions often result in lucrative investments.

Typically, investors are sent shares in the newly created company as a bonus or a dividend for owning the parent company. Large institutions (in particular) which receive spinoff shares tend to dismiss these shares as pocket change or found money and often sell the spinoff shares without regard to intrinsic value. Sometimes large institutional shareholders are not permitted to own the bonus shares because the spinoff company is too small or because it operates in an industry that does not fall within the institution's investment mandate - so the large institutional shareholder sells its allocated spinoff shares for non-economic reasons.

Furthermore, some investors who receive spinoff stock don't want to read the prospectus (sometimes over 800 pages long) that accompanies the offering and, instead, they decide to sell the stock. The prospectus is often blasé and understated and is not accompanied by heavy marketing typical of hot overpriced IPO's.

Often, company insiders want to and are incentivised to invest in the spinoff and are motivated and free to prove their worth through cost cutting and creative measures. The spinoff transaction often uncovers a previously hidden investment opportunity. Large parent companies do not want to spin off divisions and then see those spinoffs get into trouble, because that would bring embarrassing publicity, therefore, the spinoffs normally have strong balance sheets and are well-prepared to succeed as independent entities.

IT IS UNFOLLOWED

A stock with little or no institutional ownership and analyst following is a potential bargain because the less competition for and interest in the stock, the more likely it is to be undervalued.

IT OPERATES IN A NO-GROWTH INDUSTRY

Hot fast-growing industries attract a lot of competition which puts pressure on profits. A company operating in a no-growth industry is less likely to face stiff competition and therefore has more leeway to gain market share and grow earnings.

IT HAS A NICHE

An exclusive franchise is often best positioned to raise prices. For example, drug companies and chemical companies have niches - products that no one else is allowed to make. An aggregate (rock, sand and gravel) business most often has a niche because it's expensive to transport the aggregate and there is typically only one aggregate business per town. Strong brand names are almost as good as niches because they are expensive and it often takes many years to build public confidence in them.

IT SELLS PRODUCTS THAT PEOPLE MUST KEEP BUYING

Businesses with recurring revenues (such as razor blade sales) are often less risky and more profitable than businesses with once-off product sales (such as toys).

ITS INSIDERS ARE BUYERS

The purchasing of shares by company management is often a signal that they are confident in their business. When insiders are purchasing shares aggressively, one can be comfortable that, at a minimum, the company is unlikely to go bankrupt in the next six months.

When management owns stock, then rewarding the shareholders becomes a first priority. Whereas, when management simply collects a paycheck, then increasing salaries becomes a first priority. Since bigger companies tend to pay bigger salaries to executives, there's a natural tendency for corporate wage-earners to expand the business at any cost, often to the detriment of shareholders. This happens less often when management is heavily invested in shares.

It is more telling when lower ranking employees buy shares than when the CEO buys a few shares. Insider selling is not necessarily a sign of trouble, however insider buying is usually a good sign.

IT IS BUYING BACK SHARES

Buying back shares is often the simplest and best way a company can reward its investors. If a company has faith in its own future and its shares can be purchased at a reasonable price, then it may be wise for the company to invest in itself, just as the shareholders do. When stock is repurchased by the company, it is taken out of circulation, shrinking the number of outstanding shares and increasing the earnings per share, which in turn has a positive effect on the stock price.

TERMS

FEES

The Fund pays a Management Fee and an Outperformance Fee monthly on a per Participating Share basis. The Management Fee is equal to 0.5% per annum of the Fund's Net Asset Value ("NAV"). If after deducting the Management Fee, the total return of the Fund is higher than the total return of the benchmark, being the MSCI ACWI, then an Outperformance Fee of 20% is charged on the excess return.

An Outperformance Fee is only charged when the Fund's total return is higher than the benchmark's total return, measured over any and all periods to date. The Founder shall not be rewarded for idling on a rising market tide since Outperformance Fees are awarded only when the Fund's investment objective is met and a high-water mark is in place to ensure that the Fund only pays once for outperformance. To further the alignment of interests with all shareholders of the Fund, the Founder does not receive payment of the Outperformance Fee in cash; instead, the Founder must use the monetary value of the Outperformance Fee to purchase additional Participating Shares in the Fund.

SUBSCRIPTIONS

The Fund may permit subscriptions for Participating Shares on each Subscription Day (being the first calendar day of each month) by existing or new investors. The minimum initial subscription amount in the Fund is US$100,000 per investor.

Participating Shares are offered on each Subscription Day at the Net Asset Value per Participating Share on the Valuation Day (being the last calendar day of each month) immediately preceding the relevant Subscription Day.

To subscribe for Participating Shares:

- each prospective investor must complete and execute the Subscription Form (as attached in the Offering Memorandum) and return it to the Fund along with the necessary supporting documentation no later than 3pm (Cayman Islands time) fifteen calendar days prior to the Subscription Day;
- the completed Subscription Form and supporting documentation must be approved by the Fund and Administrator prior to the Subscription Day; and
- the prospective investor must ensure that subscription amounts in cleared funds are received by the Fund prior to the Subscription Day.

REDEMPTIONS

A holder of Participating Shares may redeem some or all of his Participating Shares as of each Redemption Day (being the first calendar day of each month) at the Net Asset Value per Participating Share as at the immediately preceding Valuation Day (being the last calendar day of each month) provided that a completed and executed Redemption Notice (as attached in the Offering Memorandum) is received by the Fund no later than 3pm (Cayman Islands time) at least fifteen calendar days prior to the proposed Redemption Day.

An Early Redemption Charge of up to 5% of redemption proceeds will be imposed for any redemption of a Participating Share on or before the expiry of the third Anniversary Year of the issue of such Participating Shares. The proceeds of such Early Redemption Charge, if imposed, will be retained for the benefit of the Fund.

OFFERING

For more information about the Fund please email the Founder, Robert Tate, CA, CFA at robert.tate@globalrationalcapital.com.